

Joint Audit and Governance Committee



Report of Internal Audit Manager

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To: Joint Audit and Governance Committee

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Internal audit annual report 2018/2019

Recommendation

That members note the content of the report.

Purpose of Report

1. The purpose of this report is to report on the work of internal audit in the year ended 31 March 2019, and to advise the committee of the internal audit manager's opinion on the overall adequacy and effectiveness of the internal control environments at South Oxfordshire and the Vale of White Horse District Councils.
2. The contact officer for this report is Victoria Hughes, Internal Audit Manager for South Oxfordshire District Council (SODC) and Vale of White Horse District Council (VWHDC), telephone 01235 422430.

Strategic Objectives

3. Delivery of an effective internal audit function will support the councils in meeting their strategic objectives.

Background

4. The Public Sector Internal Audit Standards (PSIAS) supersede the CIPFA Code of Practice for Internal Audit that had been previously complied with by Internal Audit. Standard 2450 of the PSIAS states that the internal audit manager must produce an annual report that:

- provides an annual internal audit opinion and report that can be used to inform the governance statement;
- confirms the organisational independence of the internal audit activity
- gives his or her opinion on the overall adequacy and effectiveness of the organisation's control environment;
- discloses any qualifications to that opinion, together with the reason(s) for the qualification;
- presents a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies;
- draws attention to any issues the head of internal audit judges particularly relevant to the preparation of the Annual Governance Statement;
- compares the work undertaken to the work that was planned and summarises the performance of the internal audit function against its performance measures and targets;
- comments on conformance with the PSIAS; and
- communicates the results of the internal audit quality assurance programme and progress against any improvement plans.

5. The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives;
- ensuring compliance with established policies, procedures, laws and regulations;
- ensuring risk management is embedded in the activity of the organisation, that leadership is given to the risk management process, and staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
- the financial management of the organisation and the reporting of financial management; and
- the performance management of the organisation and the reporting of performance management.

Overall Opinion

6. The internal audit manager is satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of SODC's and VWHDC's risk management, control and governance processes. The internal audit manager's opinion is based on the risk-based audits carried out during the year at each council and other unplanned work on control systems. No reliance has been placed on the work of other assurance bodies.
7. It is the internal audit manager's unqualified opinion that based on the areas reviewed during the year, satisfactory assurance can be placed on both councils' general risk management, control and governance processes. Overall, there is basically a sound system of internal control at both councils, but there are some weaknesses which may put some system objectives at risk. It should be noted that the control environment within key financial systems across both councils remains consistent since 2016/2017. Analysis of the ten key financial audit findings in comparison with previous years is as follows:

Key financial audit ratings	2016/2017	2017/2018	2018/2019
Full assurance	0	1	0
Substantial assurance	2	2	2
Satisfactory assurance	4	4	4
Limited assurance	4	3	4
Nil assurance	0	0	0
TOTALS	10	10	10

8. Notwithstanding the internal audit manager's overall opinion, internal audit identified a number of opportunities for improving controls and procedures across the councils which officers have generally responded to positively. Areas of weakness in the control environment within key financial systems are creditor payments, payroll, pro-active anti-fraud and sundry debtors. Where internal audit identified weaknesses, which require remedial action, recommendations have been made and discussed with officers. The two key financial audits given substantial assurance were housing benefits and council tax reduction scheme and national non-domestic rates (NNDR).
9. A summary of the 2018/2019 audits is attached as **Appendix 1** and a comparison of the internal audit opinions across both councils against two previous years is as follows. Please note that a joint report counts as two as there can be differing assurance ratings for each council within a joint audit.

Planned audit ratings	2016/2017	2017/2018	2018/2019
Full assurance	1 (2%)	7 (16%)	2 (5%)
Substantial assurance	12 (27%)	4 (9%)	6 (14%)
Satisfactory assurance	13 (30%)	23 (52%)	16 (38%)
Limited assurance	18 (41%)	10 (23%)	18 (43%)
Nil assurance	0	0	0
TOTALS	44	44	42

Summary of Audit Work

10. For 2018/2019, internal audit completed 732 chargeable audit work days against a planned 736. This includes planned audit work, consultancy work and contingency work (i.e. investigations). A comparison of actual days against planned audit days for 2018/2019 is attached as **Appendix 2**.
11. A total of 21 joint planned internal audit reviews have been undertaken, with three joint audits carried forward to the 2019/2020 audit plan. Of the 42 completed audits, two (5%) achieved a full assurance rating. Six audits (14%) achieved a substantial rating. For 16 audits (38%) a satisfactory assurance rating was achieved. Limited assurances were issued for 18 (43%) audits. No reviews resulted in nil assurance being given. In total 256 recommendations to improve controls and procedures within the councils were made. Of the 256, 48 (19%) were classified as high, 88 (34%) as medium and 120 (47%) as low.
12. One joint and one VWHDC consultancy review was completed during 2018/2019 and these utilised 39.5 days. No contingency or system development work was requested. Ad-hoc advice is provided to service teams and this includes time spent obtaining responses to recommendations. The ad-hoc advice for utilised 22 days for SODC and 22 days for VWHDC.
13. A total of nine joint follow-up reviews were undertaken during 2018/2019, utilising 8 days. Time has been allocated within the 2019/2020 audit plan for further follow-up work of 2018/2019 and 2019/2020 planned audits.

Issues Relevant to the Annual Governance Statement

14. Specific audit reviews on corporate governance and the council's anti-fraud and corruption policies were not included within the 2018/2019 annual audit plan. However, a risk management audit was undertaken in 2018/2019 which made six recommendations across both councils, including five medium risk and one low risk recommendation, and gave a satisfactory assurance opinion. A gifts and hospitality audit was also undertaken in 2016/2017, which made one medium risk recommendation across both councils and gave a substantial assurance opinion. Internal audit has undertaken pro-active anti-fraud testing within 2018/2019 which made three high risk recommendations and gave a limited assurance opinion at both councils. Pro-active anti-fraud testing in 2017/2018 provided a substantial assurance opinion, so it should be noted that there has been a decline in the control environment, specifically in the areas of supplier bank account changes, employee bank account changes and new user IT access setup.
15. No suspicions of internal fraud and corruption were reported to the internal audit manager during 2018/2019. However, there have been a number of direct debits taken from the councils' bank accounts not authorised by the relevant council. Payments have been reclaimed through the bank indemnity scheme and the bank is being asked to not accept any direct debits without council authorisation.
16. The council's gifts and hospitality policy states that 'The Local Government Act and other legislation makes it clear that council employees should not accept

any fees or reward during the course of their employment other than their standard remuneration from their employer'. The policy goes on to highlight where exceptions to this rule are permissible and outlines the process staff should follow when offers of gifts or hospitality are made. The internal audit manager has reviewed the officer gifts and hospitality register for 2018/2019, and no declarations were made.

Internal Audit's Performance

17. The internal audit team comprised two auditors and an interim audit manager for the period 1 April 2018 to 17 September 2018. From 1 December 2018 to 31 March 2019 and 21 January 2019 to 31 March 2019 there were two auditor vacancies as a result of internal promotions. The two auditor vacancies were covered by agency auditors. An interim corporate fraud officer was engaged for a period of four months from December 2018 to March 2019 to perform a corporate fraud and cyber security risk assessment.
18. The performance of internal audit is measured against a number of indicators. The out-turn for 2018/2019, including comparison with the previous year, is as follows:

Performance Targets	Year Ending 31/03/2018	Year Ending 31/03/2019
PT1 To issue 90% of audit notifications at least 1 month before start of audit fieldwork	95%	90%
PT2 To issue 90% of draft audit reports within 5 working days of completion of the exit meeting.	100%	86%
PT3 To issue 90% of final audit reports within 5 working days of receipt of the auditees final responses to draft report and recommendations.	100%	95%
PT4 To issue 90% of follow-up notifications at least 1 month before start of follow-up work.	100%	75%
PT5 To follow up 90% of final reports within 6 months of completion of audit.	100%	75%
PT6 To complete the audit fieldwork and issue draft reports on 100% of key financial system audits within the audit plan.	100%	100%
PT7 To complete the audit fieldwork and issue draft reports on 80% of all non key financial system audits within the audit plan.	42%	100%

	Year Ending 31/03/18	Target 2018/2019	Year Ending 31/03/19
PT8 Chargeable (identifiable client and/or specific IA deliverable)	79.2%	74%	76%
PT 9 Non-Chargeable (corporate, not IA deliverable)	5.9%	9%	9%

Lost (i.e. leave, study, sickness)	14.9%	17%	15%
PT 10 Planned Lost	13.5%	15%	12.5%
PT 11 Unplanned Lost	1.4%	2%	2%

19. The team's PT2 target was affected by two reports that were delayed following the contract auditor's work period coming to an end and one audit report delayed due to unplanned leave. The team's PT4 and PT5 targets were affected due to the additional workload due to the two auditor vacancies. The PT8 chargeable hours' target is slightly higher than 2017/2018 due to the use of agency auditors, who incur less non-chargeable hours. Notwithstanding, the internal audit manager considers it to be an excellent team performance, especially the completion of PT6 and PT7, the completion of 100% of key and non-key financial audits, which was achieved during a period of significant change following the management restructure and the resulting internal audit manager and auditor vacancies.

Quality Assurance and Improvement Programme

20. As part of the quality assurance programme and to assist in monitoring and improving the quality and value of service provided, auditees are asked to complete an audit feedback questionnaire on internal audit's performance. Responses received in 2018/2019 are summarised in **Appendix 3**.
21. All feedback received by the internal audit manager is discussed with the relevant auditor. Where appropriate, the internal audit manager meets the officer to discuss their comments in more detail and implement any necessary process improvements.
22. There is ongoing monitoring of the performance and quality of internal work throughout the year. All internal audit work is reviewed by the audit manager and feedback provided to auditors regarding the quality and audit technique.
23. The PSIAS require periodic internal and external assessments. An internal self-assessment, based on a PSIAS checklist provided by the Chartered Institute of Internal Auditors, is in progress and will be presented to the next committee along with an action plan to address any revisions needed to enable compliance. An external assessment is to be completed once every 5 years by a qualified, independent assessor or assessment team from outside the organisation. The external assessment can be in the form of a full external assessment, or a self-assessment with independent external validation.

Compliance with the PSIAS

24. There have been no impairments to the independence of internal auditors during the period 2018/2019.

Financial Implications

25. There are no financial implications attached to this report.

Legal Implications

26. None

Risk Implications

27. Identification of risk is an integral part of all audits.

VICTORIA HUGHES
INTERNAL AUDIT MANAGER